

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 EUR-12 NEA-10 ISO-00 ERDA-05 AID-05

CEA-01 CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07

FEA-01 XMB-02 /124 W

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R 181100Z JUN 77

FM AMEMBASSY LOME

TO SECSTATE WASHDC 2352

INFO AMCONSUL HAMBURG

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TRIPOLI

C O N F I D E N T I A L L O M E 1 6 3 2

E.O. 11652: GDS

TAGS: ECON, ECIN, TO

SUBJECT: THE TOGOLESE REFINERY: ECONOMIC OUTLOOK UNPROMISING

1. THE 1 MILLION TON PER ANNUM CAPACITY REFINERY LOCATED OUTSIDE LOME IS NOW IN THE PROCESS OF BEING COMMISSIONED. THE REFINERY WAS TWO YEARS IN CONSTRUCTION AND COST \$50 MILLION. THE CONSTRUCTION WAS UNDERTAKEN AT A GOOD POINT IN TIME BECAUSE INFORMED SOURCES SAY IT WOULD NOW COST \$100 MILLION TO BUILD A SIMILAR FACILITY.

2. FIFTY-TWO THOUSAND TONS OF LIGHT NIGERIAN CRUDE, COSTING \$11 MILLION, HAVE BEEN DELIVERED. THIS OIL WILL BE UTILIZED DURING THE COMMISSIONING PROCESS WHICH IS SCHEDULED TO LAST UNTIL SEPTEMBER. AN OPTIMISTIC ESTIMATE IS THAT THE COMMISSIONING PROCESS WILL BE COMPLETED BY EARLY SEPTEMBER. PESSIMISTIC ESTIMATE IS THAT THE REFINERY WILL NOT BE COMMISSIONED UNTIL THE END OF SEPTEMBER.

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3. THE NIGERIAN CRUDE HAS BEEN OBTAINED ON SIXTY DAY TERMS. THIS MEANS APPROXIMATELY AUGUST 7 THE \$11 MILLION WILL BE DUE FOR PAYMENT. TOGOLESE MINISTER OF MINES MIVADOR AND MINISTER OF FINANCE GRUNITSKY ARE TO SIGN A 2 BILLION CFA LOAN (\$8,097,165.00) WITH A SWISS BANK IN THE WEEK OF JUNE 20TH. ACUTE SHORT TERM CASH FLOW PROBLEMS IN CONNECTION

WITH RUNNING THE REFINERY ARE LIKELY TO ADD TO OTHER
TOGOLESE SHORT AND MEDIUM CASH FLOW PROBLEMS IN THE NEXT
FEW QUARTERS.

4. THE 52 THOUSAND TONS OF CRUDE ON HAND REPRESENTS APPROXI-
MATELY 350 THOUSAND BARRELS OF REFINED PRODUCT WHICH WILL
BE AVAILABLE WHEN THE REFINERY IS COMMISSIONED. THE WEISSER
COMPANY OF HAMBURG HAS GUARANTEED TO TAKE ALL OF THE TOGOLESE
PRODUCT AND TO PAY FOR IT IMMEDIATELY UPON DELIVERY SO THAT
BY THE END OF SEPTEMBER INCOME FROM THE REFINERY WILL BE
CHANNELED BACK INTO THE OPERATION. ACCORDING TO A REPRESENTATIVE
OF THE WEISSER FIRM, HOWEVER, PRESENT TOGOLESE SOURCES OF CRUDE,
MAINLY, LIBYA AND NIGERIA ARE HIGH COST PRODUCERS AND ONE AIM OF
THE COMPANY WILL BE TO ENCOURAGE THE TOGOLESE TO BUY CRUDE
ACCORDING TO MARKET CONDITIONS. TOGOLESE DECISIONS WITH
RESPECT TO OBTAINING OIL HAVE BEEN DICTATED TO DATE BY POLITICAL
CONSIDERATIONS AND BY A PERCEPTION OF SCARCITY; THE REALITY
IS, ACCORDING TO THE WEISSER REPRESENTATIVE, THAT THERE IS
SURPLUS CRUDE WHICH CAN BE OBTAINED AT SOMETHING LESS THAN THE
\$14.80 A BARREL THAT THE TOGOLESE PAID FOR THEIR 52 THOUSAND
TONS OF NIGERIAN OIL. THE TOGOLESE GOVERNMENT IS APPARENTLY
KEENLY INTERESTED IN ACCEPTING THE WEISSER COMPANY'S CONCEPT
OF SEARCHING OUT CRUDE ON THE BASIS OF ECONOMICS RATHER THAN
POLITICS. SIMILARLY, THE WEISSER COMPANY HAS SHIPPING
INTERESTS WHICH THEY CAN GUARANTEE BOTH TO DELIVER CRUDE
AND TO LIFT IT ON SCHEDULE. THE GOT IS APPARENTLY FAVORABLY
DISPOSED TOWARD THIS PROPOSAL.

5. NEVERTHELESS, THE ECONOMICS OF THE TOGOLESE OPERATION ARE
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UNPROMISING. THE FOLLOWING TABLE SHOWS A PROJECTED COST PER
BARREL OF TOGOLESE REFINED PRODUCT.

PROBABLE COST	
CRUDE	\$14.80
ADD	
PORT CHARGES	0.05
OPERATING COSTS	1.5
WORKING CAPITAL COST	0.15
INTEREST	0.14
PROBABLE COST A BARREL	
CURRENT	\$18.48

THIS MEANS THAT THE TOGOLESE PRODUCT WILL COST ABOUT \$140 A
TON. THE EMBASSY UNDERSTANDS THAT THE AVERAGE COST OF PRODUCT
ON THE MARKET THESE DAYS IS \$120 PER TON. THEREFORE, THE
TOGOLESE REFINERY FACES A POSSIBLE LOSS OF \$3.00 PER BARREL

FROM THE BEGINNING.

6. THE TOGOLESE ARE, OF COURSE, ONLY BEGINNING TO LEARN THE ECONOMICS OF OIL AND HAVE STUMBLED INTO A VERY UNFORTUNATE OPERATING CONTRACT WITH A FRENCH FIRM. THE FIRM, IPADEX, IS ASSOCIATED WITH THE FRENCH PETROLEUM INSTITUTE AND THE GOT HAS SIGNED A CONTRACT WHICH CALLED FOR AN EXPENDITURE OF 2.3 MILLION CFA (\$9,311.00) PER MONTH PER MAN PLUS EXPENSES. THIS IS ON A BASIS OF A 32-MAN OPERATING CONTINGENT WHICH THE FRENCH ARE NOW TRYING TO INCREASE TO SOME 70-MEN. THE PROJECTED COST OF THE CONTRACT ON THE BASIS OF 32-MAN IS ABOUT \$6 MILLION PER ANNUM. HOWEVER, THE SEEMING INEPTITUDE OF THE IPADEX TEAM HAS APPARENTLY FRIGHTENED THE TOGOLESE AND THEY ARE NOW ATTEMPTING TO REEVALUATE THEIR DECISION. MEANWHILE, THE OPERATING COSTS SHOWN IN THE TABLE ABOVE DO NOT INCLUDE THE COST OF THE IPADEX CONTRACT.

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ACCORDING TO INFORMED REFINERY SOURCES, THE REFINERY COULD BREAK EVEN IF THE COST OF REFINED PRODUCT PER BARREL COULD BE REDUCED TO APPROXIMATELY \$15 OR SO A BARREL FROM A MINIMUM OF \$18.48 PER BARREL. THIS WOULD REQUIRE HOWEVER, A SAVAGELY AUSTERE OPERATION AND MAINTENANCE BUDGET FOR A PERIOD OF SEVERAL YEARS WHICH THE HIGHLY EXPENSIVE REFINERY MANAGEMENT CONTRACT WITH THE FRENCH FIRM WILL PROBABLY NOT PERMIT. (FYI: FOR APPROXIMATELY \$5 MILLION AN LPG BOTTLING PLANT COULD BE BUILT IN ASSOCIATION WITH THE REFINERY WHICH COULD BE QUITE PROFITABLE BOTH IN TERMS OF THE DOMESTIC AND FOREIGN MARKETS. HOWEVER, THE ENGLISH FIRM WHICH HAS FINANCED THE REFINERY TO DATE HAS TURNED DOWN THE TOGOLESE REQUEST FOR ADDITIONAL FINANCING AND SUGGESTED THAT THE TOGOLESE SEEK NEW FINANCING FROM OTHER SOURCES. PRESUMABLY IF THE BRITISH FIRM GOT THE MANAGEMENT CONTRACT THIS ATTITUDE MIGHT CHANGE.)
PALMER

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Disposition Approved on Date:
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